

Good Jobs for Inclusive Growth in Central Asia and the South Caucasus

A Role for International Financial Institutions

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I—Background

- This study is deals with **good jobs** for **inclusive growth** in Central Asia and the South Caucasus (CASC)
- Inclusiveness of growth and job creation are high on CASC countries' policy agenda
- The CASC region includes eight countries:
 - Armenia - Kazakhstan - Turkmenistan
 - Azerbaijan - Kyrgyz Republic - Uzbekistan
 - Georgia - Tajikistan

which became independent nations in 1991 since the dissolution of the Soviet Union

Objectives and Definitions

- This study explores the prospects for inclusive growth in CASC countries and highlights the central role played by ‘good’ jobs in achieving this objective.
- Inclusive growth is defined as rapid and sustainable economic growth whose fruits are broadly shared among the population.
- Good jobs are defined as jobs which are well-paid and secure because they have high productivity—and which therefore contribute to the goal of inclusive growth.

II—Key Findings

- This study identifies five common features of CASC countries which have relevance for policies aimed at promoting the creation of good jobs for inclusive growth
 - I. High share of low productivity agriculture in the economy.*
 - II. High rate of informality and low productivity self-employment.*
 - III. High rate of cross-border labor migration in the region, especially toward the Russian Federation.*
 - IV. High degree of spatial disparity within countries.*
 - V. Small market size within each country, the region and the world for non-resource production.*

External Forces

- In addition, two major global, external forces are affecting the CASC region with regard to implementing a good jobs for inclusive growth agenda:
 - a. long term trends in technology, which are displacing demand for basic unskilled labor, while increasing overall factor productivity; and
 - b. volatility in commodity prices, which affects the hydrocarbons exporters directly, but also have an indirect impact on other countries in the region through migrant remittances.
- These trends favor an increase in unemployment of basic labor and push up the wage premium for skilled labor, jeopardizing inclusive growth in the absence of policies addressing the demand and supply of the job market.

III—Analytical Framework

- Families generate their income based on the assets they possess, the return generated on these assets, and net public transfers. Assets can be physical capital, financial capital and human capital. However, for the majority of the population in CASC countries income received as a result of their employment is the main source of livelihood and economic opportunity.
- Therefore, the distribution of human capital and the different rates of return that it generates according to skill level, sector of employment, location, gender, and age determine the inclusivity of economic growth.
- Public transfers can help mitigate inequality and improve inclusiveness, but the crucial factors remain employment and wages (i.e. jobs and the economic returns to jobs).

Two Sides of the Labor Market

- Labor markets, and their ability to match demand with supply, constitute the basic transmission mechanisms between employment opportunities and income for households and individuals.
- The supply side of the labor market includes human capital and its productivity. It also includes mobility of labor across sectors, regions, and national borders.
- IFIs tend to focus on the supply side through investment in human capital.
- But supply of labor with high human capital will not deliver inclusive growth if there is no demand for that labor.
- On the demand side, a lack of economic diversification is a major factor impeding growth and employment, which also relates to poor development of the private sector and SMEs

IV—Policy Recommendations

- Policymakers should look at improving the supply and demand sides of the labor market and at the institutions connecting supply and demand.
- Supply side policies help increase human capital and reduce the inequality in its distribution: large focus is on education and skills development, including technical vocational education, training programs, and support for entrepreneurship and SME development. Enhancing labor mobility is another a key supply-side policy.
- On the demand side, promoting economic diversification, and improving infrastructure and internal connectivity are major policy thrusts.
- Governments should pay special attention to targeting gender, youth and spatial dimensions of inequities in human capital formation.

V—A Role for IFIs

- IFIs can assist CASC countries achieve their investment needs for physical and human capital development in support of good jobs for inclusive growth.
- IFIs can improve project design using impact analysis to inform the selection of technology to maximize their impact on inclusiveness and job creation.
- Projects in support of SMEs have a greater effect on job creation than average projects.
- Projects in health and education have a stronger impact on inclusive growth than other sectors.
- Policy-based loans can include reforms of pensions and social insurance schemes, due to their strong impact on promoting inclusive growth.

A Role for IFIs (cont'd)

- Within sectors, interventions should target not only the number and quality of jobs directly generated by each project, but also spillovers created on the rest of the economy through multiplier effects
- IFIs are well suited to promote regional approaches and strategies such as creation of infrastructure networks in transport, power, water, and telecommunication, together with the “soft components” allowing a smooth flow of people, goods, and services across borders.
- Overall, IFIs also play an important role in providing knowledge solutions and social services and providing design and implementation of structural reforms.
- Effective coordination among IFIs and other development partners is also important to channel efforts for reflecting Sustainable Development Goals in national strategies.